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Harahan, William Johnson

In the matter of advance in
freight rates

Washington, D.C.

[1917]

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BEFORE THE

Interstate Commerce Commission.

IN THE MATTER OF ADVANCE IN FREIGHT
RATES.

STATEMENT ON BEHALF OF SEABOARD AIR LINE
RAILWAY COMPANY.

By W. J. HARAHAHAN, *President.*

MAY 8, 1917.

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JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C.

BEFORE THE

Interstate Commerce Commission.

IN THE MATTER OF ADVANCE IN FREIGHT
RATES.

**STATEMENT ON BEHALF OF SEABOARD AIR LINE
RAILWAY COMPANY, BY W. J. HARAHAN, PRESI-
DENT.**

The Seaboard Air Line Railway Company requires an increase in rates so as to provide a greater revenue to enable it to perform its duties to the public efficiently. To demonstrate the necessity for this increase, we should first prove that we are faithfully complying with proper business conditions.

For the successful conduct of railroad business, I deem it essential that they should have:

1. Proper accounting methods,
2. That the railroads should be properly managed, and
3. That they should have rates sufficient to allow adequate maintenance of the property, and in addition thereto provide a net income which will allow the payment of a reasonable return upon the investment, which shall be suffi-

ciently stable to make the securities of the company attractive by reason of the superior credit standing thus established.

The word "proper" I use in its greatest possible breadth.

The accounting requirements of the Interstate Commerce Commission are such as insure that proper accounting must be had if those requirements are religiously carried out. There is no question but what this is being done by this company, and, as we are subject to the regulations of the Interstate Commerce Commission and also to its inspection—which is by no means perfunctory—and as we are honest and earnest in attempting to co-operate with the Commission, I feel that that requirement is fully met.

With reference to the second requirement, that is, proper management: The Seaboard Air Line Railway Company, for the year ending December 31, 1916, had remaining from a gross revenue of \$26,184,487.25, a net income of \$1,612,010.62, not considering, however, the item of discount. It was operated for a ratio, not including taxes, of 66.96 per cent, the detail ratios of operation being as follows:

Maintenance of way and structures.....	12.17
Maintenance of equipment.....	14.93
Traffic expenses.....	3.47
Conducting transportation	33.07
General expenses	2.90
Miscellaneous and Transportation for investment—Cr.....	.42
Total	66.96

There are certain railroads in our territory which have conditions in many ways similar to those attending the operation of this company's property. By taking the statistics of these railroads for the period of five years ending June 30, 1916, so as to obtain a more representative result than one year's figures can give, the following comparisons occur:

	A. C. L.	Southern.	C. of Ga.	Average.	S. A. L.
Maintenance of way and structures	13.30	12.84	14.04	13.12	12.50
Maintenance of equipment	16.09	16.54	18.22	16.60	14.06
Traffic	1.86	3.01	3.15	2.68	3.26
Transportation	34.92	34.89	34.43	34.85	35.90
General, Miscellaneous and Transportation for investment—Cr..	2.91	3.14	3.30	3.08	3.16
Total	69.08	70.42	73.14	70.33	68.85

Using the same railroads for the same period and taking the following expenses, these comparisons occur:

	A. C. L.	Southern.	C. of Ga.	Average.	S. A. L.
M. W. & S. expense:					
Per mile of road....	\$985.16	\$1,223.03	\$975.67	\$1,106.74	\$937.64
Per mile of track....	763.42	876.56	734.32	819.80	736.72
Locomotive repairs (affected by the size):					
Per engine mile.....	7.5¢	9.0¢	8.6¢	8.5¢	8.5¢
Per engine owned....	\$2,052.83	\$2,324.06	\$2,247.31	\$2,237.53	\$2,395.98
Passenger car repairs:					
Per car owned.....	\$757.69	\$716.29	\$632.04	\$718.79	\$746.32
Per mile, exclusive of Pullman.....	1.4¢	1.2¢	1.3¢	1.3¢	1.2¢
Freight car repairs:					
Per car owned.....	\$65.29	\$69.90	\$81.15	\$69.70	\$58.22

These figures indicate quite clearly that the roads in this territory are operating for about the same relative figures, and to one who is familiar with the conditions which each road has to encounter, the differences between the individual ratios or unit costs are accounted for by some well-known characteristic of the various properties. For instance, one line may have more double track than another and more

side tracks, thus entailing a higher ratio for maintenance of way and structures; another may have more locomotives and freight cars than the other, requiring higher ratio of maintenance of equipment, which expense, however, the lower ratio line sustains in per diem; one line may have traffic relations with lines having a kindred ownership, requiring a less cost for outside traffic solicitation than the other; transportation ratios are affected by differences in grade line; and a road having no coal on its line is very vitally affected by the necessity of having to pay freight rates on its coal instead of transporting it entirely over its own line. These comparisons indicate economical operation by the Seaboard, its total ratios being less than the rest of the other lines, and, consequently, less than the average. The unit figures indicate that for maintenance the Seaboard is not spending an extravagant amount per unit in comparison with other railroads.

It is anticipated that the gross earnings of this company under the present rates will increase about \$1,700,000 for the calendar year ending December 31, 1917, as compared with that ending December 31, 1916.

It is calculated that for this calendar year, considering only increased costs which are now effective, or increased costs which we are able to make such a close estimate on as makes a practical certainty, that the increased expenses from such costs will be as shown below. These figures are based on ultra-conservative lines. For instance, where we have negotiations with employees where they are requesting certain wages, we have not taken their full request as representing the probable cost of the increase, but have taken only what we have offered them and which they have not as yet accepted in some cases. In the other items of increase, we have taken what is the lowest increase that we can probably hope to make, the idea being to be extremely conservative:

Increase in wages now effective:	
Eight-hour law increases, which cannot be offset by savings made by changes in methods of operation	
operation	\$388,791
Mechanics	10,600
Operators	20,039
Roadway foremen	37,100
Unskilled mechanical labor.....	79,497
Unskilled track labor.....	46,408
Miscellaneous	21,707
Total.....	\$554,142

Lowest increase that we can hope to make in settlements now in process of negotiation or under consideration by reason of requests from the men and to meet the conditions occasioned by the law of supply and demand..... 291,000
(Probably will run to not less than \$375,000.00).

Increase in cost of materials:	
Coal	\$954,573
Cross-ties	116,618
Mechanical department materials.....	355,647
Roadway department materials.....	186,761
Stationery	73,771
Other transportation supplies.....	64,314
Lubrication	1,670
Total	1,753,360
Increase in taxes.....	119,308

Per diem:
Increase in rates to 75 cents..... \$136,251
Increase due to increased freight revenue: Freight revenue per car per day \$3.04, or 24.7% for per diem

Total 298,551

Amount additional to that allowed for in the above which it will be necessary to spend in conducting transportation item alone to take care of the additional \$1,700,000.00 expected gross revenue..... \$290,000
Grand total..... \$3,306,361

Therefore, unless an increase in rates can be had, we will be in the position at the end of this calendar year of having had the heaviest earnings in the history of the railroad, with no net income therefrom, the increased expenses above shown being sufficient to absorb the \$1,612,010.62 net income which we had as a result of operation for the last calendar year, and, in addition thereto, the expected \$1,700,000 increase in gross earnings, and to attain this result will require rigid economy in the operation of the property. A disastrous flood, such as occurred last summer, or some other unforeseen casualty or cause of expense, might even cause a deficit.

I submit that this proves that an emergency exists requiring relief through increase in net earnings, but I feel that this is really the culmination of a situation which has been developing for a number of years. Up to this time its progress has been insidious, taking place by slow degrees. This condition, however, has brought it to a head. All carriers are affected in a similar manner so far as the burden incident to the sustaining of additional expense is concerned, and as none of them seem to have been enjoying an unreasonable return on their investments, it would seem that they should require similar relief. Upon consideration, it was felt that a percentage increase in all freight rates, except as specified in the applications on file, represented the least burdensome way of providing the necessary increases. So far as this company is concerned, the percentage of increase should be greater than fifteen per cent in order to meet its necessities as I shall show later. Fifteen per cent, however, seemed to be the consensus of opinion as to what it was advisable to ask for, in view of the conditions applying to the various lines, each one of course having its own peculiar situation. The emergency has been created by war conditions and the eight-hour law. The figures which are shown above indicate that out of the total of \$3,306,331, that the increase in expenses is proportioned between the several causes as follows:

Eight-hour law.....	10%
Other wages affected by the war conditions.....	15%
Increased cost of materials.....	53%
Increase in taxes.....	4%
Increased per diem.....	9%
Other increases	9%

I felt that this emergency existed prior to January 1, 1917, but on account of the steady and unexpected rise in prices it did not disclose itself in a way that made the railroads certain until the January results of operation were ascertained, when it was perceived that it was an emergency requiring immediate treatment. The only way to determine when the necessity is passed is to watch the results of operation for the changes which will denote such result.

It would seem that there can be no question but what the prices will continue to advance during the war, and there is good reason to believe that they will be maintained for several years after the war, although such an opinion can only be classed as a guess, as there is very little data upon which any definite opinion can be based. The principal items making up the materials used by the railroads consist of coal, iron, cross ties, and lumber. These articles were below normal in 1915, not greatly above normal in 1916, but have risen unprecedentedly in 1917. The average increase in the price of all material used by this company is estimated to be 39.3 per cent for this calendar year, in contradistinction to the fifteen per cent increase in rates asked for. An example of the increased price of equipment may be cited in the case of Mallet engines, which were purchased at a cost this year of \$73,730, the price of which two years ago would have been about \$33,500, an increase of 120 per cent. We have recently purchased some Santa Fe engines at \$53,905, an increase of 140 per cent over the price two years ago. The increase in the price of ventilated box cars recently quoted is 152.4 per cent higher than we paid for the same car three years ago, and that price has now increased since this quotation.

A situation which has occurred in the South Atlantic States will have a very great effect on prices in the future, that is, the movement of thousands of negroes to the North to take the place of immigrants of former years, a portion of whom will never return but, on the contrary, will encourage others to join them. The plenitude of labor in these States in the past is the principal reason why labor costs have not reached as high a level as in other parts of the country. This condition seems to have permanently changed, and must mean a higher level of prices for materials used on these railways. During the war there will probably also be some scarcity of labor due to the withdrawal of men for use in the war.

In considering increased burdens which this company will have to sustain, we have not considered the question of land grants in any way, as the only land-grant railway we have is a small amount located in the State of Florida, where it is not probable we will have to move a great many troops.

The total amount of increase in wages affecting this company during the period January 1 to March 31, 1917, resulting from advances in wage rates which became effective since December 31, 1916, is \$120,086.77. However, this does not represent the proportionate amount of increase which we will have to sustain as compared with the last calendar year, because of the fact that a number of the increases which we now have become effective during that period. And besides this, there will be a number of increases which became effective since March 31, and a number that we are now negotiating that will become effective before or after that, all of which are shown in the table on page 5. Of these increases in wages, there has been included in the monthly report of operating expenses to the Interstate Commerce Commission \$53,666, \$40,000 of which is due to the operation of the Eight Hour Law, leaving an estimated balance of \$62,895 yet to be charged on account of the Eight Hour Law. The total amount attributable to the Eight Hour Law for these three months is estimated to be \$102,895.

The percentage which the \$120,086.77 bears to the total operating revenue is 1.54 per cent and to the total operating expenses 2.29 per cent, and net operating revenue 4.69 per cent.

Our average cost at the mines of coal, per ton of two thousand pounds, was, in January, 1917, \$1.30 against 90 cents in January, 1916; in February, 1917, \$1.47 against 91 cents in February, 1916; in March, 1917, it was \$1.52 against 90 cents in March, 1916. These increases in the cost of coal per ton resulted in an increased expense during the three months ending March 31, 1917, of \$185,123. The present contracts expire on June 30, 1917; new contracts, effective July 1, 1917, have already been agreed to, and the average mine cost per ton under them is \$1.85 against an average cost in 1916 of 96 cents, an increase of 89 cents or 93 per cent. There have been no changes in the division of coal rates during the three months in question which in any way affect the freight charges which the Seaboard pays on its fuel coal. However, the increases effective since March 31, 1917, in coal rates will increase the freight charges which the Seaboard must pay on its fuel.

The cost per tie for the three months was, for first-class oak, 70 cents against 52 cents; first-class pine, 60 cents against 39.5 cents; first-class cypress, 60 cents against 39 cents; average 63 cents against 42.4 cents.

During the three months ended March 31, 1917, there has been no increase in operating expenses due to the increased current price of rail, as all of our rail was contracted for previous to this period, and our needs are provided for up to June 30, 1917.

The increased cost of other material and supplies during the three months ended March 31, 1917, was \$159,672.

Notwithstanding the fact that gross revenue for the three months ended March 31, 1917, increased \$919,788, net income decreased \$193,751.

The Seaboard has made no material change in rates since

January 1, 1917, either in increases or reductions, that would materially affect its operating revenue.

From calculations which we have made up to this time, the readjustments incident to the fourth-section findings and orders have increased the Seaboard's gross freight revenues not more than two-tenths of one per cent, which means that the increases resulting from these changes represent a total addition of approximately \$31,000 per annum to the Seaboard's gross revenues. As a matter of fact, the Seaboard's average per ton-mile earnings on merchandise for the calendar year of 1916 were less than the year 1915. I mention "merchandise" because the merchandise rates are mainly the rates which have so far been affected by the fourth-section readjustment. The total rate per ton per mile on all traffic was also materially less in 1916 than in 1915, the comparative figures being 9.73 mills for 1916 and 10.44 mills for 1915. I have based this statement upon the calendar year 1916 so that any increases in rates occurring during that period are included in the figures which I am using.

In the Seaboard's territory, there have been no increases in lumber rates since January 1, 1913, except an advance of one cent in western lumber rates, which became effective March 16, 1917, but this increase is not yet reflected in the Seaboard's earning statements; on the other hand, the Seaboard has made very material reductions in lumber rates to the East; in fact, from a large part of its lumber producing territory the rates to the East have, since January 1, 1913, been reduced from one to three cents per hundred pounds. As a matter of fact, the Seaboard's earnings per ton per mile on lumber were, in 1916, 6.56 mills, as compared with 7.18 mills in 1915. It may be well to explain in connection with the one cent advance in western rates, effective March 16, 1917, that this represents the entire advance, and that the Seaboard's proportion of this amount is very small.

Broadly speaking, the level of the existing interstate freight rates in the South is not higher than has been pre-

scribed or approved by your Honorable Commission; therefore, for the purposes of this question, it must be assumed that the present rates were reasonably low under transportation conditions existing at the time of their establishment.

A reasonable freight rate must have due regard to two important factors, *i. e.*,

(a) The cost of the service;

(b) The value of the service to the shipper.

As to the cost of the service, I will show that, during this year, the Seaboard's increased cost of service will exceed its requested gross revenue increase from these advances in rates by more than \$2,000,000. From the standpoint of cost alone, it is, therefore, apparent that the rates should, from the Seaboard's standpoint, be increased more than fifteen per cent, and that any increases in rates necessary to overcome its increased transportation costs would be reasonable.

As to the value of the service to the shipper, it seems to me quite clear that the value to a shipper of a transportation service increases as the value of his shipment increases. It is within common knowledge that practically everything that is shipped has, within the past year or more, reached values almost unprecedented. My observation is that the shippers along our line are very much more interested in getting their products to markets than in any question of freight rates. We have had instances of crate material shipped by express. Traffic which has heretofore moved at low-water rates now pays the higher all-rail rates. The cry of at least the Southern country is for cars and for efficiency of transportation service. The average increase in the values of articles shipped very much exceeds fifteen per cent. I do not believe that an increase of fifteen per cent in freight rates will prevent the shipment of any traffic which is dependent upon the Seaboard for transportation. On the

other hand, I am satisfied that the individual shippers on our line would willingly consent to even a greater increase than fifteen per cent if they could thereby be assured of sufficient transportation facilities.

Speaking from the most intimate knowledge of the subject, I know that this property is being operated for as little money as it should be under the conditions which surround its operation. To show just how we determine our expenses, I should like to state, somewhat in detail, some of our methods:

First, to determine the amount of money which must be spent in maintenance of way and structures to maintain the railroad in safety and to determine what shall be spent for maintenance of equipment so as to comply with a proper business policy, we make, at the beginning of the year, a very careful calculation by men who are entirely familiar with all the circumstances which govern such determination, including condition of the roadbed, of traffic, of density of traffic, of equipment, and any condition which might be likely to affect the expenses in question.

So far as maintenance of way and structures is concerned, there is an irreducible minimum below which we cannot go, because in doing so we infringe on safety, which is not allowable under any conditions. There is, however, a maximum amount that can be spent most economically, but which must be determined for each individual railroad. I do not believe it is true that the larger amount you spend for maintenance the more economical you are, because I believe that a superfluous amount can be spent, producing waste. It is undoubtedly true, however, that the railroad spending an adequate amount must of necessity be able to perform better and more economic service, because of the avoidance of expenses in other departments of operation which may not be avoided unless such adequate amount is spent. For instance, if track is maintained in an adequate manner, trains are enabled to get over the road in good shape, there will be in-

initely less hazard of derailment, tonnage trains can be pulled with much greater ease and better time made, and there will be that general saving in expenses which is always apparent in any business where facilities are maintained on a high-grade basis as compared with a contrary policy.

This is also true with reference to maintenance of equipment, because of the apparent fact that locomotives maintained in prime condition are less liable to cause accidents, less likely to cause delays to trains on the road, can pull their tonnage with greater ease and are more apt to produce uninterrupted movement to traffic. This is again reflected in gross earnings when engines and cars are always in condition to be furnished upon the demands of the public so as to take care of the maximum amount of business which can be done with the facilities owned by the railroad.

Therefore, there is a determinate maximum which it is proper to spend.

While transportation department expenses are necessarily bound to fluctuate greater than that of the other departments, with a greater or less amount of business, yet there are many of the expenses of conducting transportation which can also be predetermined in a way so that they may be placed on such a basis that they will fluctuate in a proper ratio with the rise and fall of business.

The other expenses of operation, that is, traffic and general expenses, are also carefully analyzed and planned.

When the determination as to the maximum and minimum amount of money which can be spent is reached, a careful estimate is made as to what the gross revenue will probably be. An allotment is then made to the various departments for their expenses in accordance with the principles above enumerated, that is, that safety must not be transgressed and that there must not be a superfluous amount spent in maintenance.

The various departments are then required to keep careful records from week to week as the year goes on to insure

that they keep within these expenses. Gross earnings are also watched from week to week, and if the earnings increase beyond the prior estimate and if it is felt that more can be spent with economy than the first allotments, additional amounts are allotted. If the gross revenue decreases, then it is necessary to decrease the allotment, but never beyond a point below the irreducible minimum above referred to, because it is necessary to spend at least that minimum for safety. It may be also advisable to increase the charge for maintenance of equipment if conditions warrant or it may be necessary to decrease it if earnings decrease sufficiently so that it may be seen that the entire equipment will not be needed.

This does not end the supervision, however, because we then specialize on the various details of operation of the departments. For instance, we may be able to introduce a labor-saving device which will enable us to handle material cheaper than it has been previously handled. We take advantage of that device and either save that amount of money or put it into the property if it is economical to do so.

We check in detail the operation of our stations to determine whether or not freight is being handled as cheaply as it can, and for the purpose of arriving at a proper conclusion as to this fact, we first calculate at what price freight should be handled for and we denominate that as a hundred per cent. We then strive to attain the hundred per cent or as near thereto as possible. The same specialization is made with reference to the cost of handling cars in yards and in case of turning engines.

This railroad keeps a check of the cost of operating every individual freight train on the railroad every day, comparing it with and striving for an attainable one hundred per cent. We obtain bids for our supplies of all character and purchase them from the lowest and best bidder.

We closely scrutinize requisitions for all materials. We issue our materials by what is known as the supply train, re-

quiring as much as possible the return of old and worn out tools and other supplies in the issuance of new ones. This train also picks up as much of our scrap as practicable. We reclaim such part of the scrap material as we can through a reclamation department, which is showing some startling results during the present high price of materials and which will continue to show good results at any price of materials. We have in use a rolling mill, rerolling the old iron which we pick up along the line of road, and which is showing some splendid results, not only in decreasing the price of our material, but in the quality of iron produced.

We thus endeavor to be sure as possible that every item of expense that we incur means that we will receive a corresponding benefit therefrom, in fact, we check with as much thoroughness as possible all of our detailed operations, bearing in mind, however, that the entire field of operation must be watched so as not to lose sight of economy in its larger and broader phases by reason of such a close observation of smaller affairs that the greater is lost sight of, and also bearing in mind the fact that it may be economical to spend in one department if by so doing more money will be saved in another department.

This method is not confined to our operating accounts, but we also analyze in detail our income accounts, observing the changing tendencies of the various items that go to make up these accounts and make whatever arrangements changing conditions require and whatever economies the situation will allow.

While it is necessary to have and to use records in order that a true knowledge of the situation may be obtained, yet to my mind a post mortem analysis and discussion of operating results alone does not lead to the obtaining of as good results as intelligent and comprehensive planning for future expenses does.

It surely cannot be contended by any business man that a state of affairs in which the entire revenue of a property is

paid out and no net income left can be satisfactory. It must be considered that this does not allow any return on any of our stock, nor does it allow a cent of money for the purpose of carrying on improvements to the property that should be carried forward in order to provide the most effective service for the public. This railroad should spend on its property not less than \$3,500,000 per annum for improvement in its facilities and \$5,000,000 for equipment, based on existing prices. Based on prices prior to the present high prices, these amounts would run about \$2,500,000 each. This does not provide money for additional mileage in the way of extensions to the property. There should be provided for out of earnings the amount necessary to provide those facilities which are of themselves not productive of adequate interest on the investment, such as new depots, elimination of grade crossings, increase in weight of rail, paving streets adjacent to right of way, charges for replacing obsolete facilities and other non-productive investments. It is proper to issue new capital for those investments, the use of which will produce fully adequate interest on the investment, being careful to consider all possible contingencies. The new capital should be secured by the sale of stock and bonds in the proportion that will produce the lowest ultimate charge to the business. In order that the lowest cost of doing business can be attained, it is necessary that the road have a good credit, which can only be obtained by having a sufficient equity in the property on the part of the stockholders, so that the bondholders will be so entirely safe that speculation will be as remote as practicable so far as the bonds are concerned, and this involves the payment of some reasonable return on the stock, and, in addition thereto, a net income sufficient to provide those improvements which should be provided from net income.

In so far as the capitalization of this property is concerned, I have no question in my mind but that the valuation which is being made in accordance with the Valuation Law will show that this property is worth not less than the amount at

which it is capitalized. When the Valuation Law was passed, I had an estimate made as to the probable cost of reproduction and I found from such estimate that such cost of reproduction would be more than our capitalization. The total amount of capitalization consists of the following:

Bonds	\$120,717,500
Equipment trusts.....	5,501,021
Stock	60,950,800
Total	<u>\$187,169,321</u>

or \$54,228 per mile. The net income, before interest deduction, earned the last calendar year, represented 4.02 per cent on this investment; surely it cannot be said that this is an extravagant interest on the investment.

We feel that we should be allowed a net income, under present conditions, of at least \$3,000,000, fifty per cent of which we would use to pay some return upon our stock, the remaining fifty per cent to take care of improvements in accordance with the principles above set out, thereby building up the credit situation which we desire to attain. If we could receive an increase on our entire freight revenue, inter- as well as intra-state, it would require an increase of sixteen and two-thirds per cent on this entire revenue to furnish this amount. Fifteen per cent on the interstate freight revenue will not produce anything like it.

The company now known as the Seaboard Air Line Railway Company was originally organized as the Seaboard Air Line Railway on July 1, 1900, and has, therefore, been in existence for nearly seventeen years, having been organized as a result of the consolidation of a number of small roads.

The average return upon the capitalization since its organization has been only 3.24 per cent.

The gross earnings have increased from \$10,184,613.96 in the fiscal year ending June 30, 1901, to \$26,184,487.25 for the calendar year ending December 31, 1916.

The railroads are today in a starving condition.

If this company could spend the amount of money which I have stated above as being necessary upon its property, the people along its line would receive much more benefit than the cost occasioned by the increase in rates necessary to build up the credit situation sought, because of the more efficient service that necessarily could be rendered, making for greater regularity in service, which would mean such improved service to the communities as would enable them to better conduct their activities and regulate their affairs on a more stable basis. It would mean the lessening of hazard of accidents, the greater regularity in the movement of passenger trains and the greater certainty of the receipt of freight at regular intervals, enabling merchants to carry less stock than they can when the service is not so efficient. In addition to all of this, there is the profit coming in to the communities by reason of the expenditure of the amounts necessary to provide the facilities for which this money will be furnished. Another good effect of a steady credit situation is the ability to employ a regular force, only changing as increased by increasing business, making a permanent citizenship and acting to the best advantage of the merchants along the line of the railroad and also acting to the benefit of the railroad in enabling it to do its work at the least cost by reason of being able to maintain an absolutely permanent organization, which advantage would eventually redound to the profit of the community as a whole, because of the lessening of cost of doing business resultant therefrom. It is very hard to put all of these benefits into actual figures, but I am convinced that the thinking man who has had occasion to observe the progress of events and who has seen the conditions brought about by reason of the restriction of the spending ability of the railroads will agree that this condition will follow as surely as night follows day.

Another thing to be considered gravely is the necessity for having our railroads in the very best condition as a neces-

sary precedent to preparedness for the purposes of the war. There has been nothing which has been developed more clearly by the war in Europe than the fact that the transportation facilities of the country form a very important part of its necessities for defense. In war, prompt service is demanded, and the service should be rendered as efficiently as possible, which can only be brought about by having all the facilities necessary to so render it.

This company in common with many other companies so situated cannot now place securities except in the shape of short term loans, without paying a prohibitive rate of interest. I believe it needs no proof to demonstrate that statement. Your attention was called by Mr. Harrison, in the statement he made before the Commission on March 27th, to the fact that the Southern Railway had recently tried to sell bonds on what was considered a favorable plan to investors, but was unable to do so. Surely if one of the strongest railroads in the South is in this situation, what may be expected of other roads?

So far as this company is concerned, I know that it has been managed as economically as it could be under the conditions with which it has had to contend, and I am convinced from a close study of the situation and discussion with the officers of other roads with whom I come in contact that the same is true generally. The result is as shown above, and, therefore, the situation calls for some constructive action. The railroads under these conditions cannot afford to be economic in the sense of doing the many things that should be done to bring about the utmost economy. They are compelled to do many things which are makeshifts because they do not have the money necessary to carry out the broadest economic policy. For instance, on our railroad we have been compelled to postpone the purchase of power beyond a period when we should have purchased it to bring about the best economic future operation. We have also been compelled to postpone the purchase of other equipment

under the same conditions. We have been compelled to postpone the erection of facilities, the provision of which would mean great economies. I have in mind the fact that we should spend a large amount of money at Portsmouth, Virginia, our northern terminus, for the provision of facilities to take the place of facilities which are now congested and which were built at a period when conditions were radically different from what they are today, being out of date and causing undue expense in operation. The provision of this facility would cause the saving of a large amount of money in operation as well as saving in loss and damage claims, regularity in handling freight, etc. We should double track our railroad from Hamlet, North Carolina, to Norlina, North Carolina, requiring about 135 miles of double track. To do so would mean greater facility in operation, which would mean the saving of large amounts of money and lessening of hazard. We should provide better terminal facilities at Savannah, Georgia. We need to increase our terminals at Atlanta, Georgia. There are other points at which we should spend money for the provision of facilities, etc. We hope to do these things in time, but in the meanwhile the public and ourselves lose the benefit of the improvements, both in the lack of sufficient facilities and on account of the loss of economy in operation. We need a large addition to our mechanical facilities to enable us to keep our equipment at all times in as serviceable condition as the business of the community may require. The latest machinery enables equipment to be put through the shop in much quicker time than without it. The result is efficiency in operation, meaning the saving of money and, what is more important, the ability to furnish all the equipment that you own to the public when their needs require it.

I know that this Commission appreciates the grave responsibilities that rest upon it, as well as the other commissions which may cause expense to the railroads by reason of regulation. We are being pressed from all sides today to put in

additional facilities, such as block signaling our railroad, elimination of grade crossings, building new depots, putting on additional passenger service, keeping on unremunerative passenger service, and many other things that the public desires done. We should like to do all these things, but we cannot do them if we cannot get sufficient revenues allowed us to provide for them. So that, in the final analysis, if the railroads are honestly and properly managed, responsibility for lack of facilities and lack of service is more with a lack of sufficient rates than with the railroads themselves. No thinking railroad man would like to see regulation abandoned, because it is the only protection that the railroads have to stay the hand of those who will not be fair and those whose desire is only limited by their ability to obtain. Without the commissions, I feel there would be chaos. I, therefore, do not regard them as a liability, but, on the contrary, regard them as an asset.

For the reasons given above, I feel that the railroads must, in order to enable them to perform effectively their duty to the public, have the full fifteen per cent increase granted them which they now request. So far as this company is concerned, it is estimated that the increase asked for would produce, if effective July 1, 1917, \$1,080,000 for this calendar year. This is not nearly enough to meet our requirements as herein outlined. It must be remembered that for the next calendar year the increases in expenses will be very much higher because of the fact that we are enabled this year to take advantage of existing contracts which we have but which expire before the next calendar year. It is hardly likely that before that period there will be a diminution of any of the increases in expenses above shown because even though the war should end, I do not believe that the diminution of expenses will be great enough to cut very much figure. So far as wages are concerned, they absolutely will not be lower except in a very few instances. Although this increase will not meet the conditions laid down above, it is our hope that with

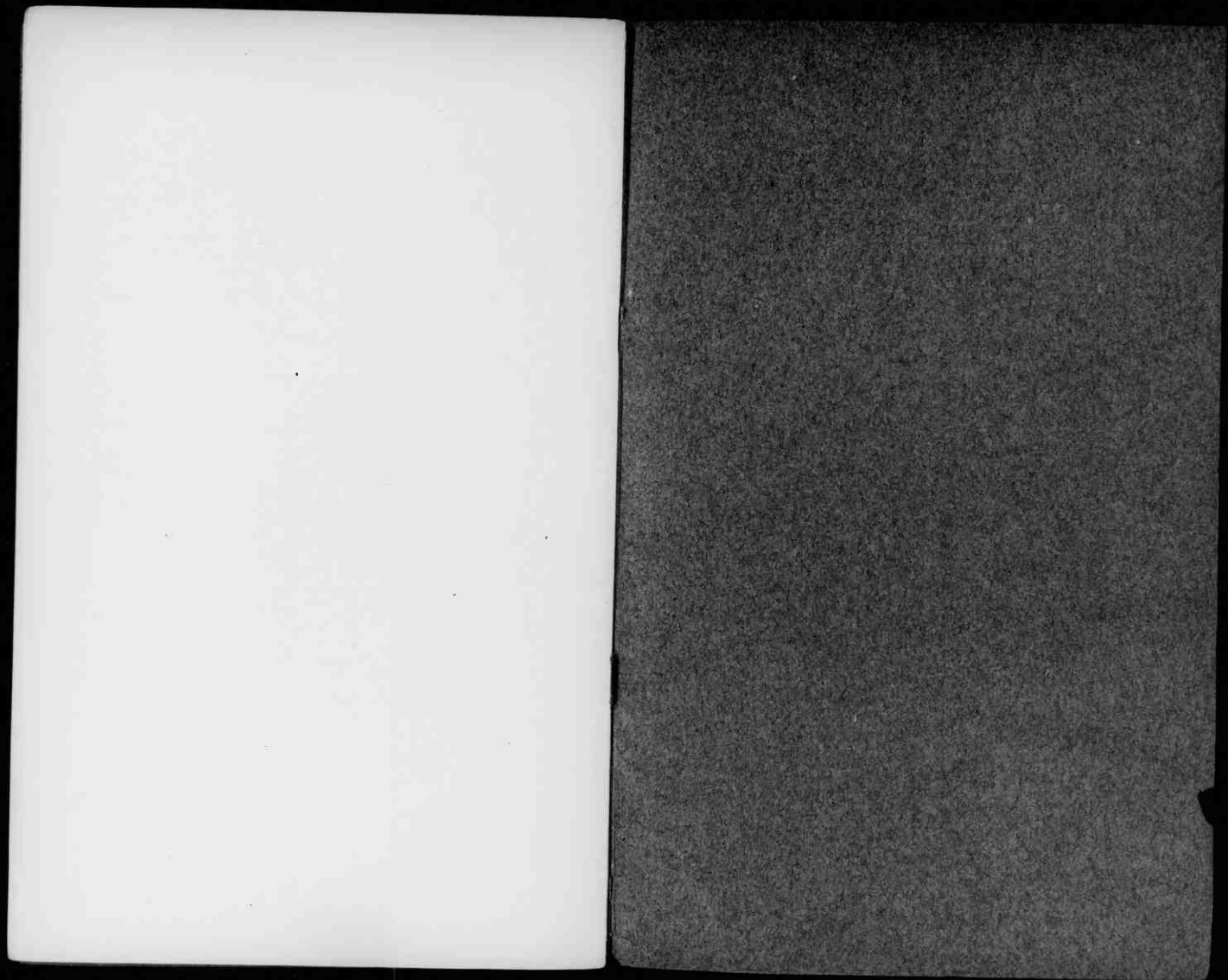
increased gross in the future, with the economies produced if we can spend the money to provide greater facilities and possibly some decrease in the increased costs above shown when conditions again become near normal, that we will eventually reach a point where we can attain the desired situation from a credit standpoint. This shows, therefore, that the net income, instead of being increased by reason of the increase in rates, will actually be decreased on account of the great increases shown in expenses. The decreased amount thus left will be devoted to the purposes of providing betterments and improvements in line with the policy outlined heretofore.

It is the cry at times like this, when railroads are asking for increases in rates, that if the railroads will attempt to obtain more economic operation that they will obtain large savings. Such statements are usually glittering generalities. This Commission will, of course, require analyses of how such savings could be made before giving them credence. There may be some abuses which can be corrected, but most of them require joint action on the part of all railroads. The railroads have been progressing fast along these lines for some years, but it is a gradual process which must be worked out in the evolution of business. It is impossible to set down a definite cost which might be saved if certain alleged reforms could be had, such, for instance, as pooling freight cars, elimination of roundabout routes, superfluous passenger service between definite points, abolishment of reconsigning privileges, maintenance of what may seem to be duplication of forces, such as soliciting forces, etc. Many of these so-called abuses, however, are continued because of the demand of the public, and many of them will require laws to correct, because to abolish some of them would contravene existing laws; some of these reforms the public would not agree to, because of the curtailing of accommodations for which they are willing to pay the money necessary to obtain. I do not desire to belittle these propositions, however, but they will be worked out in time. The situation that confronts us, however, now is an actual

condition and not a theory. The fact of the matter is that we cannot take advantage of these reforms at the present day, because they have not been worked out and it is not the fault of the railroad companies that they have not been, and they are being worked out as business will allow.

A serious question, the effect of which is unknown now and which will probably be of great moment, is the question of taxes. If tax laws for the raising of revenue for the immediate future are so framed as to put a large expense on the railroads, it would mean a very definite and distinct burden on them, which they would find it hard to bear and which this increase will not provide for.

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